



# VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2013

Auditor of Public Accounts  
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## AUDIT SUMMARY

Our audit of the **Virginia Health Workforce Development Authority (VHWDA)** for the fiscal year ended June 30, 2013, found:

- a matter regarding the recording and reporting of all transactions in VHWDA's financial accounts and records that is necessary to bring to management's attention;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

Matters which are necessary to bring to management's attention and instances that are required to be reported are discussed in the section entitled "Audit Findings and Recommendations."

In addition to one new finding, our audit of VHWDA contains five repeat issues from their prior audit. Entities typically correct deficiencies within one year; however, after turnover in the Executive Director position, management has been focused on transitioning to new grants to support VHWDA. As a result of not correcting deficiencies, we found that VHWDA did not properly state, in all material respects, the amounts recorded and reported in VHWDA's accounting system. Now that VHWDA's management and programs have stabilized, we recommend that the Board and management dedicate the necessary resources to provide oversight of VHWDA's fiscal activities.

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## AUDIT FINDINGS AND RECOMMENDATIONS

During our last audit of the Virginia Health Workforce Development Authority (VHWDA) we reported several issues and provided management with recommendations for corrective action. Several of the issues we found were contained within two prior year findings entitled “Improve Board Resources to Ensure Proper Governance” and “Improve Controls over Bank Account Disbursements.” As a result of management not resolving some of the issues contained within last year’s report, we again are making similar recommendations. However, instead of grouping these repeat issues within the same findings as last year, we are reporting them individually. By reporting issues individually, management will be able to develop a corrective action plan for each that can be monitored by the Board.

The following table provides a cross-walk between prior and current year audit findings.

Prior Year Finding	Current Year Finding
Improve Board Resources to Ensure Proper Governance	<ul style="list-style-type: none"><li>• Improve Budget Approval and Financial Reporting</li><li>• Evaluate Existing Contracts Using Required Procurement Principles</li><li>• Establish Accounting and Financial Policies that do not Conflict with Actual Practices</li></ul>
Improve Controls over Bank Account Disbursements	<ul style="list-style-type: none"><li>• Separate Fiscal Duties</li><li>• Complete Reconciliation in Timely Manner and Retain Evidence of Completion</li></ul>

### **Repeat Issue: Improve Budget Approval and Financial Reporting**

The Board directly approved \$369,162 worth of mini-grants within its fiscal year 2013; however, we could not find evidence of the Board approving a comprehensive budget for fiscal year 2013 that included VHWDA’s revenue accounts. For fiscal year 2014 the Board approved the Operating Budget for the September 30, 2013, through September 29, 2014, timeframe on December 4, 2013. The Board approved this budget two months after it had been implemented which resulted in an untimely budget approval.

VHWDA’s draft Accounting and Financial Policy Manual states it is the policy of VHWDA to prepare the annual budget on the accrual basis of accounting. Budgets proposed should be accompanied by a narrative explaining the sources and uses of funds. It is the policy of VHWDA to adopt a final budget at least 30 days before the beginning of VHWDA’s fiscal year. On a monthly basis, financial reports comparing actual year-to-date income and expenses with budgeted year-to-date amounts shall be produced by the Grant and Fiscal Administrator.

Per the Grant and Fiscal Administrator, the Board was not taking an active role of approving an annual entity budget due to the budget being created from the original grant awards and modified

as necessary. Per the Interim Executive Director, the Board recently requested that the 2015 budget be formatted more clearly. Management is planning to provide the Board with the new budget format, which includes a cover sheet and a breakdown of funds. However, there is still confusion over who is responsible for creating the budget and what level of review is necessary, which is the result of not having an approved budget policy.

Without approving VHWDA's budget in a timely manner, the Board is not communicating its expectations to management, which limits the Board's ability to hold management accountable. Additionally, without a clear budget creation and approval policy in place, there will be confusion over whose role it is to create and approve budget line items and who to hold accountable for unbudgeted expenses.

At a minimum, the Board should approve an annual budget that includes all of VHWDA's funding sources and a description of restrictions, if any. Management should provide the Board with periodic reports comparing VHWDA's actual activities and balances to the approved budget.

#### **Repeat Issue: Evaluate Existing Contracts Using Required Procurement Principles**

VHWDA has no evidence of how three contractors were selected. VHWDA paid a total of \$64,185 to these contractors. Additionally, for one of these contractors, VHWDA did not have a signed contract. Recipients of Federal awards should use procurement procedures that conform to applicable federal law and regulations and standards identified in the A-102 Common Rule or OMB Circular A-110 (2 CFR part 215), as applicable.

According to management, VHWDA was not aware that the federal government required grantees to use procurement procedures that conform to federal regulations. Without evidence of how VHWDA selected its contractors, entities granting funds to VHWDA may disallow related expenses. VHWDA should evaluate contracts using required procurement principles.

#### **Repeat Issue: Separate Fiscal Duties**

VHWDA has not separated fiscal duties between authorizing payments, custody of cash, and recording, reporting and reconciling. The Grant and Fiscal Administrator has:

- Authority to collect and disburse VHWDA's money;
- Custody of VHWDA's bank account; and
- Recording and reporting responsibility for VHWDA's fiscal activities and balances.

The federal Office of Management and Budget's Circular No. A-133 Audits of States, Local Government, and Non-Profit Organizations §\_\_300 Auditee Responsibilities states: "The auditee shall: (b) Maintain internal control over Federal programs..."

VHWDA has only one fiscal employee, who can access money in VHWDA's bank accounts, records financial transactions, and prepares fiscal reports to the Board and Grantors. Additionally,

VHWDA does not have a process for the fiscal employee's supervisor to review reconciliations and randomly selected transactions and their supporting documentation.

Without separation of duties and supervisory reviews, VHWDA is susceptible to fraud, fiscal errors, and non-compliance. Additionally, the Board and Grantors do not have reasonable assurance that the fiscal information they receive from VHWDA is materially correct.

VHWDA should remove the Grant and Fiscal Administrator's authority to disburse money from VHWDA's bank account and receive revenue. The Executive Director should sign and mail checks prepared and recorded by the Grant and Fiscal Administrator. Additionally, the Executive Director should receive and log revenues and provide them to the Grant and Fiscal Administrator for recording and deposit. Finally, the Board should require the Executive Director to review the Grant and Fiscal Administrator's monthly bank reconciliation in a timely manner and have the Board Treasurer periodically review bank reconciliations and randomly select transactions and review their supporting documentation.

#### **Repeat Issue: Complete Reconciliation in Timely Manner and Retain Evidence of Completion**

The Grant and Fiscal Administrator did not maintain evidence that she reconciled VHWDA accounts and records to its bank statements. Additionally, VHWDA and its Board were not aware of this because of the lack of supervisory review.

Per VHWDA's draft Accounting and Financial Policy Manual, bank account statements should be forwarded unopened to the Fiscal Administrator and reviewed. The Fiscal Administrator prepares the reconciliation between the bank account and the General Ledger. The reconciliation should be completed within one week of receipt of the bank statements. Finally, the Fiscal Administrator is to submit the bank reconciliations and any AJE's to the Executive Director and Treasurer for review.

According to the Grant and Fiscal Administrator, she had difficulties with implementing QuickBooks. She would create monthly reconciliations using QuickBooks, but would need to edit them in subsequent months to correct errors. Additionally, per the Executive Director, there were difficulties meeting with the Board Treasurer monthly. Without reconciliations and timely reviews, VHWDA and its Board does not know if it has accurate fiscal reports. For example, VHWDA did not know that \$24,086 was miscoded as payment to a grantee instead of a contractor.

The Grant and Fiscal Administrator should create and retain evidence that VHWDA's accounts and records are reconciled to its bank statements. Additionally, each month the Executive Director and Treasurer should review and approve the reconciliation in a timely manner.

#### **Repeat Issue: Establish Accounting and Financial Policies that do not Conflict with Actual Practices**

VHWDA has drafted policies for approval that conflict with current practices. Per the Commonwealth Accounting Policies and Procedures Manual, "the lack of complete and up-to-date

internal policies and procedures (customized to reflect the agency's staffing, organization, and operating procedures) reflects inadequate internal control."

Management obtained policies and procedures from a larger organization and did not tailor them to reflect VHWDA's staffing, organization and operating practices. Without policies and procedures tailored to VHWDA's actual practices employees may question which policies they need to follow, which may prevent the Board and Executive Director from holding employees accountable.

Management may want to obtain policies and procedures from a comparable organization to use as a starting point. However, management should designate appropriate resources to create and approve the Accounting Policies and Procedures for VHWDA that establish appropriate controls.

### **Eliminate Debit Card and Obtain Written Approval for Expenses**

VHWDA did not retain documented preapprovals for debit card transactions and some purchases made by check. VHWDA's draft Accounting and Financial Policy Manual states, "the recording of assets or expenses and the related liability is performed by an employee independent of ordering and receiving. The vendor invoice should be supported by an approved purchase order where necessary and should be reviewed and approved by the Executive Director prior to being processed for payment."

At the time of these payments, VHWDA did not have an established policy for obtaining preapprovals for disbursements. Additionally, VHWDA uses a debit card, which allows employees to make payments from VHWDA's bank account without obtaining prior approval.

Without proper review and approval of expenses prior to payment processing, VHWDA runs the risk of generating expenses unallowable under federal grants. Additionally, using a debit card does not have protections that are available for credit card transactions should their card become compromised.

VHWDA should switch from using a debit card to a credit card and establish a sound policy for expense approvals to ensure that purchases are reviewed and approved prior to payment processing.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

October 6, 2014

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the accounts and fiscal operations of the **Virginia Health Workforce Development Authority** (VHWDA) for the year ended June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in VHWDA's accounting system, review the adequacy of VHWDA's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements and review corrective actions of audit findings from prior year reports.

## **Audit Scope and Methodology**

VHWDA's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.



Board Governance  
Deposits  
Disbursements  
Fiscal Policies

We performed audit tests to determine whether VHWDA's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of VHWDA's operations. We tested transactions and performed analytical procedures, including trend analyses. We confirmed the year-end bank balance with outside parties.

### **Conclusions**

We found that VHWDA did not properly state, in all material respects, the amounts recorded and reported in VHWDA's accounting system as described in the section entitled "Audit Findings and Recommendations." VHWDA records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

VHWDA has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

### **Exit Conference and Report Distribution**

We discussed this report with management on September 15, 2014. Management's response to the findings identified in our audit is included in the section titled "Management Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management and the board, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

GDS/clj



October 6, 2014

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Ms. Mavredes:

The Virginia Health Workforce Development Authority (VHWD) management has reviewed and agrees with the Audit Findings and Recommendations for fiscal year ending June 30, 2013. As a result, VHWD management will develop and implement a corrective action plan to address prior year findings entitled “Improve Board Resources to Ensure Proper Governance” and “Improve Controls over Account Disbursements” as well as the current year findings:

**Improve Board Resources to Ensure Proper Governance:**

1. ***Improve Budget Approval and Financial Reporting.*** During the state fiscal year ending June 30, 2013, VHWD received funding from two federal grants with fixed budgets with different fiscal years; one fiscal year was September 1—August 31, and the other was September 30—September 29. Additionally, VHWD operates as a component unit of the state for the purpose of financial audits and thus follows the state fiscal year (July 1 – June 30) for financial reporting. VHWD management will prepare an annual budget to include, at a minimum, funding sources and revenue accounts with a description of any restrictions, for board approval prior to the start of the state fiscal year on July 1. Funding sources renewed or received after July 1 will be reviewed and approved at the next scheduled Executive Committee meeting or Board meeting following receipt of new funding or notice of grant award.
2. ***Evaluate Existing Contracts Using Required Procurement Principles.*** VHWD management will follow procurement procedures that conform to applicable federal law and regulations and standards identified in the A-102 Common Rule or OMB Circular A-110 (2 CFR part 215), as applicable.
3. ***Establish Accounting and Financial Policies that do not conflict with Actual Practices.*** VHWD management recently obtained policies and procedures from an Authority in the Commonwealth with similar staff positions—Executive Director, Financial Director, and Program Manager. VHWD management is reviewing the policies and procedures and tailoring them to establish appropriate controls and reflect organization and operating practices. VHWD

management will present draft policies to the Executive Committee in October 2014 for review. The final financial policies and procedures manual will be presented to the Board in December 2014 for approval.

4. ***Eliminate Debit Card and Obtain Written Approval for Expenses.*** VHWDA management will pursue obtaining a credit card in place of a debit card for transactions and purchases from VHWDA's bank account. Additionally, VHWDA management will develop a policy for approving expenditures and purchases using prior approval and/or purchase orders.

**Improve Controls over Bank Account Disbursements:**

1. ***Separate Fiscal Duties.*** VHWDA management and Board of Directors are reviewing reasonable processes and separation of duties for a two-person staff including a single fiscal administrator. Recommendations by the Auditor are under consideration and final financial policies will be developed, approved and fully implemented by December 31, 2014. Policies may include: removing the Grant and Fiscal Administrator's authority to disburse money from VHWDA's bank account and receive revenue; giving responsibility to the Executive Director to sign and mail checks prepared and recorded by the Grant and Fiscal Administrator, and receive and log revenues and provide them to the Grant and Fiscal Administrator for recording and deposit; and, assigning the Executive Director the responsibility to review monthly bank reconciliations prepared by the Grant and Fiscal Administrator in a timely fashion.
2. ***Complete Reconciliation in a Timely Manner and Retain Evidence of Completion.*** As of July 2014, the Interim Executive Director reviews accounts and records against bank statements ensuring proper documentation and support of expenditures. The Excel sheet listing VHWDA revenue accounts is signed and dated by the Interim Executive Director once the reconciliation is approved.

The Audit recommendations listed above will be incorporated in the VHWDA Financial Policies and Procedures Manual. It is anticipated that all of the issues and recommendations listed above will be corrected and implemented no later than December 31, 2014.

Thank you for your recommendations to strengthen the financial procedures and controls of the Virginia Health Workforce Development Authority. Please contact me at (804) 562-4928 or [ewittwer@vhwda.org](mailto:ewittwer@vhwda.org) if you have any questions or concerns.

Sincerely,



Erin E. Wittwer  
Interim Executive Director

Virginia Health Workforce Development Authority  
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## VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY

As of June 30, 2013

### BOARD MEMBERS

As of June 30, 2013

Joseph R. Yost  
Chairman

George L. Barker  
Co-Chair

Ralph R. (Ron) Clark, M.D.  
Secretary

Michael K. Kerner  
Treasurer

Eleanor Sue Cantrell, M.D.  
The Honorable Anne B. Crockett-Stark  
Frank H. Farrington, D.D.S., MS  
Craig Herndon, Ph.D.

Shirley R. Gibson, MSHA, RN, FACHE  
Dixie Tooke-Rawlins, D.O., F.A.C.O.F.P.  
Dianne L. Reynolds-Cane, M.D.  
Cynthia C. Romero, M.D., FAAFP

Nancy J. Stern

### MANAGEMENT

As of November 2013

Erin Wittwer  
Interim Executive Director